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Audit - Technical (External)

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# Technically Speaking

*Technically focused!*

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# Word of Welcome

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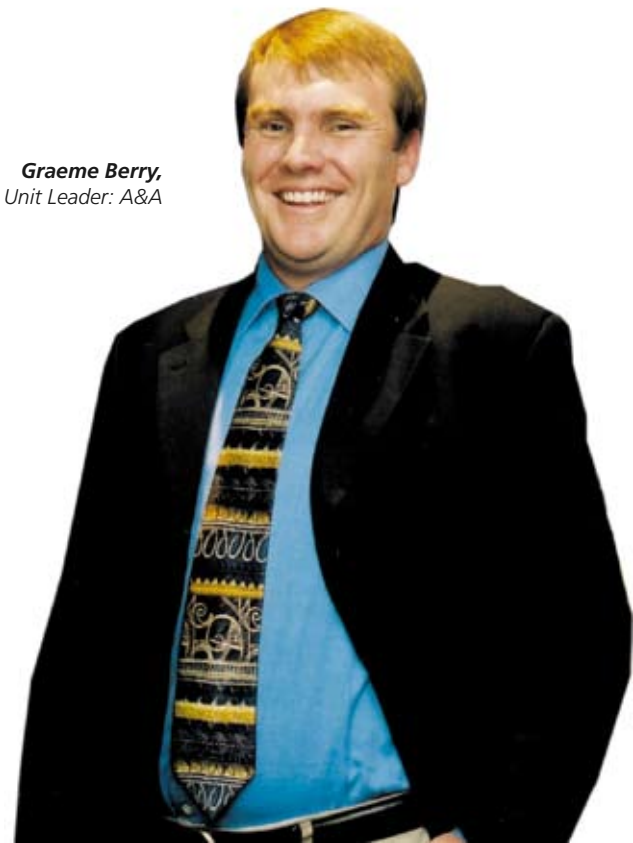
*This quarterly publication aims to provide insights, guidance and summaries of issues that are affecting the accounting, auditing and regulatory environment as well as other matters of general interest.*

*We welcome your comments on the publication and ask that you contact our editor **Nicolette Meadows** ([nmeadows@deloitte.co.za](mailto:nmeadows@deloitte.co.za)) if you have any questions or suggestions for future issues.*

*Kind regards*

*Graeme Berry*

**Graeme Berry,**  
Business Unit Leader: A&A



# Medical Scheme's Accounting and Audit Guides

by Nicki Meadows

The South African Institute of Chartered Accountants (SAICA), the Independent Regulatory Board for Auditors (IRBA) and the Council for Medical Schemes (Council) have recently prepared guidance to medical schemes for years ended 31 December 2007.

The guidance comprises the following, which are discussed in further detail below:

- Medical Schemes Accounting Guide
- Circular No 38 of 2007 – Summarised Financial Statements
- Circular No 39 of 2007 – Format of Income Statement
- Medical Schemes Auditing Guide

## Medical Schemes Accounting Guide

The guide assumes compliance with International Financial Reporting Standards (IFRS) and any additional financial reporting requirements of the Council and addresses only the accounting and reporting issues that are specific to entities that carry on the business of a medical scheme. The guide does not address audit issues. The guide deals broadly with the following areas:

- Legislation Requirements – Medical Schemes Act, 1998 (Act No. 131 of 1998) as amended.
- Accounting Guide – Accounting issues specific to medical schemes.
- Report of the Board of Trustees – Duties and responsibilities of trustees of medical schemes.
- Annexures – More detailed guidance on certain issues, e.g., Illustrative Disclosures; Illustrative Report of the Board of Trustees; IFRS 4: Insurance Contracts; Capitation Agreements Illustrative Examples; Financial Instruments: Disclosures and Illustrative Disclosures Relating to IFRS 7.

## Circular No 38 of 2007 – Summarised Financial Statements

The circular has been prepared with the aim of providing guidance to medical schemes that produce summarised financial statements, mainly for distribution to their members, and to emphasise the audit requirements on summarised financial statements.

## Circular No 39 of 2007 – Format of Income Statement

The circular has been prepared with the aim of providing guidance on the prescribed format of the income statement. Non-compliance with this format could result in the Council's rejection of the Medical Scheme's financial statements.

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# Medical Scheme's Accounting and Audit Guides

by Nicki Meadows

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## Medical Schemes Auditing Guide

It is envisaged that IRBA will release separate guidance for auditors of medical schemes in January 2008. The guide will deal broadly with the following areas:

- Auditor Approval and Termination – in terms of the Act and other legislative requirements.
- Annual Financial Statement Audit – in terms of the Act.
- Reporting Responsibilities, including Non-compliance – in terms of the Act and the Auditing Profession Act, 2005 (Act 26 of 2005).
- Special Considerations – Wash-sale Transactions, Classification of Financial Assets and Amalgamations.
- Information on managed care organisations – Audit considerations relating to the use of Service Organisations.

## Other Guidance

SAICA is also in the process of developing a guide on corporate governance for medical schemes. The guide is designed to assist the board of trustees in structuring their audit committees and members serving on audit committees in carrying out their role.

***For more information, please contact your client service partner.***



# Commencement of the Amendments to the Companies Act

by Phillip Austin

The commencement date of the Amendments to the Companies Act of 2006 was gazetted on 14 December 2007. More comprehensive guidance on the implications of the Amendments, including summaries, checklists and implementation guidance is available from your client service partner or director.

## The following amendments are effective immediately:

Amendments to:

- Section 38 allowing companies to directly or indirectly fund the acquisition of the shares of the company provided a liquidity and solvency test is met.
- Section 228 requiring a special resolution to support the disposal of the whole or greater part of the undertaking or assets of a company (or in the case of a holding company of a subsidiary company where this makes up such part of the group).
- Schedule IV relating to financial disclosures.
- Require the attendance by the responsible individual registered auditor at an audit committee meeting no more than one month prior to the board meeting of a widely held company which approves the financial statements.
- Require the attendance by the responsible individual registered auditor at the annual general meeting of a widely held company; and on request of a limited interest company.
- The act of an administrative nature, relating to the Securities Regulation Panel and relating to prospectuses.

*The following amendments become effective over a period of time or at the election of the company.*

## Audit committee requirements

The requirement for a widely held company's board to appoint an audit committee comprising only non-executive directors who are independent is effective. Guidance on how to evaluate whether a director is non-executive and independent in terms of the Act is available from your client service partner.

The Act requires a widely held company to appoint an audit committee to attend to the affairs of an audit committee for the first financial year beginning after the company became widely held. As a consequence, widely held companies will need to appoint an audit committee for the first financial year of the company commencing after 14 December 2007.

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**Phillip Austin,**  
Partner in A&A



# Commencement of the Amendments to the Companies Act

by Phillip Austin

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The audit committee is responsible for:

- Nominating the proposed auditor (firm and responsible individual) to the shareholders of the company at its annual general meeting.
- Determining (as opposed to approving or recommending) the fee to be paid in respect of the audit and the terms under which the audit is provided.
- Pre-approving any contract to provide a non-audit service.
- Determining the nature and extent of non audit services the auditor may provide.
- Receiving and dealing appropriately with complaints relating to the financial statements, accounting practices, audit of the financial statements, internal audit or any other related matter.
- Reporting on the activities of the audit committee in the annual report of the company.

For companies with December financial year ends, the board should appoint an audit committee in terms of the Act as soon as possible. In respect of the 2008 financial year, the audit committee for these companies should:

- establish their charter – including what functions the audit committee has in addition to those in the law,
- agree on the auditor nomination to shareholders,
- agree on the terms of the audit for the 2008 financial year end,
- determine the audit fee for the 2008 financial year end,
- decide on the nature and extent of non-audit services to be provided by the auditor, and
- pre-approve contacts for the auditor to provide these non-audit services

Other companies should appoint an audit committee in terms of the law for the financial period commencing after 14 December 2007 prior to the end of the current financial year. It is prudent to give this audit committee responsibility for the new financial year only; and allow the existing audit committee/board to complete the responsibilities for the current financial year.

## Financial information and statements:

Companies may elect to defer the effective date of the sections relating to financial reporting frameworks to the first financial year commencing after 14 December 2007, which would have the effect of deferring the broadening of the definition of users of financial information and deferring the offences on companies, officers and others for the issuance of financial information which is materially misleading and might have misled a user. In the absence of an election by the company these requirements are effective immediately. The election can be achieved by a resolution of the board of directors.

The requirements allowing for monitoring and investigation of financial information are effective immediately, but practically will only be in place once the Monitoring Officer and Financial Reporting Investigations Panel are appointed.

Financial reporting standards will continue to be those issued by the Accounting Practices Board, until such time as the Financial Reporting Standards Council is formed and the council issues Financial Reporting Standards.

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# Commencement of the Amendments to the Companies Act

by Phillip Austin

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## Auditors:

The term of service applicable to the individual registered auditor responsible for the audit shall be measured from the date of the auditor's first appointment or reappointment after the 14 December 2007.

Also, the requirement for the signing auditor to attend the annual general meeting of a widely held company and to answer to the best of his knowledge and ability questions relevant to the conduct of the audit is effective immediately and requires the attendance at any annual general meeting at which financial statements are to be tabled that occurs after 14 December 2007. This is irrespective of the company year end.

Draft guidance on this attendance from the Independent Regulatory Board for Auditors is available [online](#).

## Next steps:

Company boards should evaluate whether their companies are widely held or limited interest. Based on this conclusion, the directors should implement the requirements of this Act as these become effective for their specific company.

For December year ends these steps should be implemented as soon as practical by the board as these companies are within the first financial period commencing after 14 December 2007.

For other year ends, companies should seek to make the necessary plans and take steps to be in a position to implement the requirements in respect of the financial year commencing after 14 December 2007 by the end of the current financial year.

***Advice can be sourced from the partner or director responsible for your relationship with Deloitte.***

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# Subprime crisis and the potential impact on South Africa

by Jaco du Plessis

The subprime sector in the United States (US) consists largely of mortgages on properties to individuals with inadequate credit history.

The loans are sometimes called “ninja loans” – loans to individuals with no income, no job and no assets. In other words, in the last few years loose lending practices were applied in the US. In addition to this, the housing price market declined in the US and the default option on mortgages became more attractive for borrowers. This resulted in significant exposure for financial institutions in the US.

The exposure arose mainly from the securitisation market. Subprime loans were packaged and securitised, with financial institutions investing in the more risky tranches of the bonds issued by the securitisation vehicles. During November 2007 the CEO's of both Merrill Lynch & Co and Citigroup Inc. resigned as a consequence of significant write-downs that these two financial institutions had to incur on their subprime exposure.

In Southern Africa, our financial institutions have not been directly exposed to the subprime sector although certain institutions have suffered losses. However, there may be a secondary impact which will be the result of a major global financial institution failing or a slow down of the global economy.

Furthermore, with the introduction of the National Credit Act which does not allow for reckless lending, it is unlikely that banks and other institutions will suffer losses of the magnitude incurred in the US and Europe.

***For more information, please contact your client service partner.***

# Statement of GAAP for SMEs

by Cobus Grove

The Accounting Practices Board approved the International Accounting Standard Board's (IASB's) exposure draft on IFRS for SMEs, as the South African Statement of Generally Accepted Accounting Practice for Small and Medium-sized Entities (the Statement) which was issued on 2 October 2007.

The Statement may be applied by:

- ‘Limited interest companies’ as defined in the Corporate Laws Amendment Act, 2006 (CLAA), if they do not have public accountability. These entities may only apply the Statement to annual financial statements for financial years ending on or subsequent to 31 December 2005 that are issued on or after 1 October 2007. (The Statement defines public accountability.)
- Other entities that are not required by legal provisions or other regulations to comply with a reporting framework (other than the Statement), if they do not have public accountability. For these entities, the Statement may be applied to annual financial statements that are issued on or after 1 October 2007.

A company that will qualify as a ‘limited interest company’ in terms of the CLAA may apply the Statement even though the CLAA has not been given an effective date and still be in compliance with the Companies Act, 1973.

The South African Institute of Chartered Accountants (SAICA) has issued Circular 9 of 2007 *Statement of GAAP for SMEs* which provides more detail on the application of the Statement.

The Statement and its implementation guidance as well as Circular 9 of 2007 can be found on the SAICA website.

***For more information, please contact your client service partner.***



# IFRS e-Learning available

by Nicki Meadows

Deloitte is pleased to make available, in the public interest and without charge, our e-Learning training materials for International Financial Reporting Standards (IFRSs).

Modules on a majority of International Accounting Standards (IASs) and IFRSs are now available.

## Registering for e-Learning (IASPlus)

Click on the link below to register for IFRS e-Learning. By registering you will have access to the IFRS e-learning material contained within this site: "[Register](#)".



# IFRS 7 and its liquidity risk disclosure requirements

by Stephen Brickett

Liquidity risk is defined in IFRS 7, Financial Instruments: Disclosures ('IFRS 7') as, 'the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities'.

The main text of IFRS 7 contains a single paragraph that addresses the specific disclosure requirements for liquidity risk. The application thereof requires guidance.

The most important consideration to note is that the liquidity disclosures are required to be presented in the format of a maturity analysis for all financial liabilities on a contractual, undiscounted basis.

Examples of financial liabilities include (whether carried at fair value or at amortised cost): current liabilities, trade payables, long term debt obligations, finance lease obligations, the current and long term portions of operating lease liabilities and derivative financial liabilities. Other off-balance sheet liabilities that are to be included in the liquidity analysis include the undrawn element of a loan commitment and issued financial guarantees.

The amounts at which the financial liabilities are disclosed in the maturity analysis will differ to that the amounts disclosed in the balance sheet since the cash flows in the maturity analysis are undiscounted amounts whilst the balance sheet carrying values are typically presented on a discounted basis.

The liquidity disclosure requirements pose a number of interesting considerations and nuances. These include considerations for the following:

1. Demand based liabilities
2. Floating rate liabilities
3. Foreign denominated financial liabilities
4. Off balance sheet financial liabilities
5. Derivative financial instruments
6. Time periods used for the liquidity analysis

In forthcoming editions of *Technically Speaking* we will be discussing each of the above six considerations.

**For more information in respect to IFRS 7 disclosures, contact your client service partner.**

# IFRS Current Issues

by Nicki Meadows

## IFRS 7 Disclosures

Paragraph 2 of the International Financial Reporting Standard 5, “*Non-current Assets Held for Sale and Discontinued Operations*” (IFRS 5) specifically states that the classification and presentation requirements of IFRS 5 apply to all non-current assets (or disposal groups) classified as held for sale and discontinued operations.

A question arises as to whether International Financial Reporting Standard 7, “*Financial Instruments: Disclosures*” (IFRS 7) requires disclosures for financial assets and liabilities classified as held for sale or part of disposal groups as there is no scope exemption in IFRS 7. Although this issue has been referred to the International Financial Reporting Interpretations Committee (IFRIC) for clarification, these financial assets and liabilities can expose the entity to significant financial risks and therefore it would appear reasonable to have some relevant disclosures provided. However, whilst we are not outside the scope of IFRS 7, depending on the particular facts and circumstances, it might be possible to provide only some of the IFRS 7 disclosures and still comply with the “presents fairly” requirement of International Accounting Standard 1, “*Presentation of Financial Statements*” (IAS 1).

## In Closing

Note from the editor

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*We welcome your comments and suggestions, which can be e-mailed to [technicallyspeaking@deloitte.co.za](mailto:technicallyspeaking@deloitte.co.za).*

*Kind regards*

Nicki

**Nicolette Meadows**



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